

**ARLINGTON SPORTS FACILITIES DEVELOPMENT AUTHORITY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 1999**

**NOTE 1 - ORGANIZATION AND PURPOSE**

The Arlington Sports Facilities Development Authority, Inc. (the "Authority"), a component unit of the City of Arlington, Texas, was incorporated April 11, 1991, under the provisions of the Development Corporation Act of 1979, as amended, Article 5190.6, Texas Revised Civil Statutes Annotated, as amended (the "Act"), by Resolution No. 91-203 of the City Council of the City of Arlington, Texas (the "Council"). The Authority operates under a seven member Board of Directors appointed by the Council. The Board of Directors of the Authority consists of three council members and four citizen members. The purpose of the Authority is to promote economic development within the City of Arlington (the "City") in order to reduce unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City by developing, implementing, providing and financing projects authorized under the Act. All actions taken by the Authority must be approved by the Council.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial statements of the Authority include all funds and account groups that are controlled by or are dependent on the Authority's executive or legislative branches. Control by or dependence on the Authority is determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Authority.

**A. Fund Accounting**

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to local governments. The accounts of the Authority are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund balances, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Authority uses the following funds and account groups:

**GOVERNMENTAL FUNDS**

**Special Revenue Fund-**

The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The cost of the Facility (as hereinafter defined) construction, as well as various legal, administrative and land acquisition expenses are accounted for in this fund.

**Debt Service Fund-**

The Debt Service Fund is used to account for the accumulation of resources for and the payment of, principal and interest on general long-term debt. The fund's primary source of revenue is a sales and use tax levied by the City on behalf of the Authority, and to a lesser extent, the lease payments on the Facility, as hereinafter defined, and service charges (see NOTE 3).

## ACCOUNT GROUP

### General Long-Term Debt Account Group-

The General Long-Term Debt Account Group represents a summary of the outstanding long-term debt of the Authority.

#### B. Basis of Accounting

Modified accrual basis - The modified accrual basis is used for all funds. Modifications from the accrual basis for these funds include the following:

1. Revenues are recognized when they become both measurable and available for use during the year. Sales and use taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time.
2. Expenditures are recognized when the related fund liability is incurred, except for interest and principal on general long-term debt, which are recorded when due or otherwise payable.

#### C. Budget Control

The Authority adopts a legal Project (as hereinafter defined) budget annually for the Special Revenue Fund. As the Project budget is not an annual operating budget, no Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual is presented. Budgetary control is exercised at the program level, within various funding sources. The six funding sources and the amount appropriated for each are as follows:

<u>Funding Source</u>		<u>Budget</u>
I	Bond Proceeds	\$135,000,000
II & III	Proceeds from:	
	Lease/Sale of Suites/Seat Options	23,112,915
	Loan	12,000,000
	Concession Contributions	12,680,779
	Sale of Brick Pavers/Other	1,032,745
	Interest Earnings	1,130,000
IV	Interest Earnings	3,996,000
V	City Street Bond Funds	2,500,000
VI	Debt Service Transfer	11,225,450
		<u>\$202,677,889</u>

The Authority's Executive Director is authorized to transfer budgeted amounts within program categories; however, the Authority and Council must approve any revisions that alter total budgeted expenditures of the program. Total Project cost from inception to September 30, 1999, is approximately \$201,795,476.

As of September 30, 1999, the Project budget amounts as amended and approved by the Authority and the Council are as follows:

<u>Program Category</u>	<u>Project Budget as Approved</u>
Ballpark Construction	\$113,991,735
Riverwalk	4,462,777
Youth Ballpark	1,038,601
Amphitheater	730,000
Learning Center/Hall of Fame	4,857,931
Linear Park/Softscape	2,390,000
Contingency	800,015
Parking	9,609,204
Land	42,374,806
Site/Street Improvements	5,892,123
Architectural/Engineering	8,861,833
Construction Permits	325,628
Testing	966,818
Project Administration	662,023
Administrative Overhead	816,985
Legal Services	2,302,995
Underwriting Expenses	2,594,415
	<u>\$202,677,889</u>

D. Cash and Cash Equivalents, Investments and Deposits

The operating cash of the funds is segregated for investment purposes. Investments and deposits, excluding TEXPOOL are carried at fair value. Interest earned on investments of the Special Revenue Fund and the Debt Service Fund is recorded in the respective funds. The Authority considers investments with maturities of three months or less to be cash equivalents.

The Authority is authorized to invest in obligations of the United States Treasury, its agencies and instrumentalities, in no load money market funds and managed pooled funds. The Authority is also authorized to invest in fully collateralized certificates of deposit, commercial paper, repurchase agreements, certain state and local governmental units' securities, as well as reverse repurchase agreements and bankers' acceptances; however, the Authority has not invested in such securities in fiscal year 1999.

E. Property, Plant and Equipment

General fixed assets are recorded as expenditures in the Special Revenue Fund when acquired.

F. Total Columns

Total columns on the combined statements are captioned as "Memorandum Only" to indicate that they are presented only to facilitate analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles, and such data is not comparable to a consolidation.

#### G. Interest Rate Swap and Cap

The Authority has entered into interest rate swap and cap agreements to modify its interest rate liability on the Notes, as hereinafter defined. Other than the interest expense resulting from these agreements, no amounts related to the interest rate swap and cap agreements are recorded in the financial statements.

#### **NOTE 3 - MASTER AGREEMENT REGARDING BALLPARK COMPLEX DEVELOPMENT**

On December 4, 1990, the City and The Texas Rangers, Ltd. (the "Rangers") entered into a MASTER AGREEMENT REGARDING BALLPARK COMPLEX DEVELOPMENT (the "Agreement"). On April 30, 1991, the Authority assumed the City's responsibility under the Agreement. The Agreement provided for the development of a ballpark complex (the "Facility"), including a major league baseball park, a youth baseball park, a child learning center, an amphitheater, a hall of fame facility and a linear park (the "Project"). Funding for the Project was \$135,000,000 in bonds issued by the Authority, interest earnings on the bond proceeds and up to \$30,000,000 in incremental funding (the "Incremental Funding") by the Rangers from the lease or sale of luxury suites and/or seat options. In addition, the City agreed to provide up to \$2,500,000 from street bond funds for infrastructure improvements in the Project area.

The Rangers agreed to pay a base rent of \$2,000,000 per year for the 30-year term of the lease. An additional rent of \$1,500,000 per year shall be paid as long as bonds issued to pay the costs of the Project are outstanding. The base rent and the additional rent commenced once the new major league baseball park was occupied. The Rangers also agreed to pledge a one dollar ticket surcharge, up to \$2,000,000 annually, to the repayment of debt, if required. The lease agreement, which was executed on June 23, 1992, is a triple net lease to the Rangers, with the Rangers retaining all concession and signage rights. Upon retirement or defeasance of the debt, the Rangers have the option to purchase the Facility, excluding the linear park, at a cost of \$60,000,000, with full credit given for all base and additional rents paid, as well as up to \$1,500,000 annual credit for maintenance costs paid on the Facility by the Rangers. If the purchase option is exercised, the Rangers are committed to play baseball in the City for ten additional years. See Note 9 for amendments to the purchase option.

Repayment of the \$135,000,000 in bonds shall be from the one-half cent sales and use tax (see Note 4), the \$2,000,000 base rent, the \$1,500,000 additional rent and the one dollar ticket surcharge, up to \$2,000,000 annually, if needed. The Incremental Funding shall be repaid, subject to any prior liens, from the one dollar ticket surcharge, up to \$2,000,000 annually.

#### **NOTE 4 - SALES AND USE TAX**

The Act provides that the City may levy a one-half cent sales and use tax for the benefit of the Authority if the tax was authorized by a majority of the qualified voters voting in an election held prior or subsequent to the enactment of the Act. On January 19, 1991, a majority of the voters voting on that date approved a proposition for "THE LEVY AND COLLECTION OF AN ADDITIONAL ONE-HALF CENT SALES AND USE TAX TO PAY BONDS ISSUED TO PROVIDE A MAJOR LEAGUE BASEBALL PARK AND RELATED FACILITIES, WITH SUCH TAX TO CEASE WHEN SUCH BONDS ARE PAID IN FULL."

The City petitioned, and the Comptroller of Public Accounts of the State of Texas approved, that the one-half cent sales and use tax increase become effective July 1, 1991. The taxable base for the additional one-half cent sales and use tax is identical to the existing City one cent sales and use tax.

The one-half cent sales and use tax may be used to (i) pay the costs of the Project; or (ii) pay the principal of, interest on, and other costs relating to any bonds or obligations issued to pay the costs of the Project or to refund bonds or obligations issued to pay the cost of the Project. Collections of the one-half cent sales and use tax by fiscal year, since inception, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>	<u>Fiscal Year</u>	<u>Amount</u>	<u>Fiscal Year</u>	<u>Amount</u>
1991	\$ 3,100,970 <sup>(1)</sup>	1994	\$15,942,508	1997	\$18,487,687
1992	12,915,150	1995	16,173,027	1998	18,786,411
1993	14,405,059	1996	17,329,933	1999	19,565,163

<sup>(1)</sup> Collections in fiscal year 1991 are for the fourth quarter only.

#### **NOTE 5 - LONG-TERM DEBT OF THE GENERAL LONG-TERM DEBT ACCOUNT GROUP**

On May 17, 1995, the Authority issued \$114,000,000 Taxable Sales Tax Floating Rate Notes, Series 1995 (the "Notes"). The proceeds of the Notes, along with funds on deposit in the Debt Service Fund, were used to refund the \$135,000,000 Taxable Sales Tax Floating Rate Notes, Series 1992 issued on June 23, 1992, the purpose of which was to pay the costs of the Project. The Notes bear an interest rate of 30 basis points (.30%) above the three month London Interbank Offering Rate ("LIBOR") for the period May 17, 1995, to May 20, 1997, and an interest rate of 40 basis points (.40%) above the three month LIBOR for the period May 21, 1997, to maturity, May 15, 2002. Interest is paid quarterly, the third Wednesday in the months of February, May, August, and November. The interest rate for each succeeding quarter is reset two days prior to each current interest payment date. The Notes may be redeemed prior to maturity at the option of the Authority on any interest payment date.

The Notes are special, limited obligations of the Authority, secured by a lien on and a pledge of certain revenues of the Authority including the one-half cent sales and use tax levied within the City. The Notes were privately placed with Sumitomo Bank, Limited and Crédit Local de France. Principal payments are due on the third Wednesday in May as follows:

<u>Year</u>	<u>Amount</u>
2000	\$ 7,000,000
2001	8,000,000
2002	<u>46,000,000</u>
	<u>\$61,000,000</u>

On July 17, 1995, the Authority entered into an Interest Rate Swap Agreement with Sumitomo Bank, Limited. The Authority agreed to swap its floating rate interest liability on the Notes for a fixed rate interest liability of 6.28%. The applicable periods and related notional amounts are as follows:

<u>Period Dates</u>	<u>Notional Amount</u>
May 21, 1997 to May 19, 1998	\$92,000,000
May 20, 1998 to May 18, 1999	77,000,000
May 19, 1999 to May 17, 2000	61,000,000

On July 17, 1995, the Authority also entered into an Interest Rate Swap Option Agreement with Sumitomo Bank, Limited. The Authority may exercise the option on any interest payment date beginning May 21, 1997, and ending on February 16, 2000. However, if during the term of the Interest Rate Swap Option Agreement, the interest rate on the three month LIBOR equals 14.6%, the Authority is required to exercise the option. Should the option be exercised, the Authority agrees to swap its floating rate interest liability on the Notes for a fixed rate interest liability of 14.6%. The applicable periods and related notional amounts are as follows:

<u>Period Dates</u>	<u>Notional Amount</u>
May 21, 1997 to May 19, 1998	\$14,000,000
May 20, 1998 to May 18, 1999	24,000,000

May 19, 1999 to May 17, 2000

34,000,000

The Authority could be exposed to variable interest rates if the amount of Notes outstanding is greater than the notional amount of the swap. As of September 30, 1999, the amount of Notes outstanding was equal to the notional amount of the swap. The Authority could also be exposed to variable interest rates if its swap counterparty defaults or if the swaps are terminated. Any termination of a swap agreement may also result in the Authority making or receiving a termination payment.

On September 8, 1999, the Authority purchased an Interest Rate Cap (the "Cap") from Bank of America, N.A. The Cap rate is 8.0% and is based on three month LIBOR. The applicable periods and related notional amounts are as follows:

<u>Period Dates</u>	<u>Notional Amount</u>
May 17, 2000 to August 16, 2000	\$44,000,000
August 16, 2000 to November 15, 2000	38,000,000
November 15, 2000 to February 21, 2001	33,000,000
February 21, 2001 to May 16, 2001	27,000,000
May 16, 2001 to August 15, 2001	19,000,000
August 15, 2001 to November 21, 2001	13,000,000

The Authority could be exposed to variable interest rates if its Cap counterparty defaults.

As part of the Incremental Funding, as defined in the Agreement, on February 2, 1993, the Authority authorized the issuance of \$20,124,000 Junior Lien Revenue Bonds, First Series (the "Bonds"). The Bonds are noninterest-bearing limited special obligations of the Authority, secured by a subordinated junior lien on the one dollar ticket surcharge, up to \$2,000,000 annually, remaining after any amounts needed to pay interest and principal on the Notes and the Junior Lien Revenue Notes, as hereinafter defined. The Bonds are due on December 31, 2008, and are callable at any time at the option of the Authority. As of September 30, 1999, \$17,109,350 in Bonds were outstanding. Proceeds from the Bonds were used toward the development of the Project.

As an additional part of the Incremental Funding, on June 22, 1993, the Authority authorized the issuance of \$12,000,000 Taxable Junior Lien Revenue Notes, Series 1993 (the "Junior Lien Revenue Notes"). The Junior Lien Revenue Notes are issued pursuant to a credit agreement between the Authority and NationsBank of Texas, N.A. The Junior Lien Revenue Notes are a limited special obligation of the Authority, secured by a junior lien on the one dollar ticket surcharge, up to \$2,000,000 annually, remaining after any amounts needed to pay interest and principal on the Notes. Guaranties by various Rangers entities provide additional security should the annual one dollar ticket surcharge amount be insufficient to pay interest and principal. For the year ended September 30, 1999, the one dollar ticket surcharge was sufficient to pay interest and principal. As of September 30, 1999, \$4,273,863 in Junior Lien Revenue Notes were outstanding.

On July 9, 1996, the Board of Director's authorized the execution of an agreement with NationsBank of Texas, N.A., amending the Junior Lien Revenue Notes extending the maturity to December 1, 2002. This amendment provides the Authority, beginning May 21, 1997, at its option, to select either a variable interest rate of 150 basis points over the applicable LIBOR period, or a fixed rate of 150 basis points over the SWAP rate as defined in the agreement. Currently, the Authority has one LIBOR based borrowing outstanding for the full amount due. This LIBOR based borrowing bears an interest rate of 7.01% and matures on December 15, 1999. The Authority could continue to be exposed to variable interest rate risk if it selects a LIBOR based rate at that time.

## **NOTE 6 - INVESTMENTS AND DEPOSITS**

In March, 1997, GASB issued Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This statement requires investments to be reported at fair value on the *Balance Sheet*, with the related gains and losses included on the *Combined Statement of Revenues, Expenditures and Changes in Fund Balance*. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties. If a quoted market price is available for an investment, that will be the fair value to be used in applying this Statement. The Authority has adopted this statement and has chosen to value its qualifying investments, excluding TEXPOOL (see below), its money market money fund and securities of less than one year to maturity at the purchase date, at quoted market prices. At September 30, 1999, the fair value of the Authority's investments was \$52,242 less than amortized cost, while at September 30, 1998, the fair value of its investments was \$102,956 greater than amortized cost. As a result, \$155,198 is recorded as the *Net decrease in the fair value of investments*.

The Authority voluntarily participates in the Texas Local Government Investment Pool, TEXPOOL. Oversight responsibility for TEXPOOL is provided by the State Comptroller of Public Accounts, who has the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board, composed of both Participants and other independent persons, who review the investment policy and management fee structure. TEXPOOL operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Amortized cost, rather than market value, is used by TEXPOOL to report net assets used to compute share prices. Therefore, the fair value of the investment in TEXPOOL is the same as the value of TEXPOOL shares.

Investments and deposits of the Authority are stated at fair value with interest rates ranging from 4.74 percent to 7.60 percent. Investments and deposits at September 30, 1999, were as follows:

	<u>Category of Risk</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
<u>Investments</u>			
Treasury STRIPS	(1)	830,270	778,028
Federal National Mortgage Association	(1)	2,317,523	2,317,523
Federal Home Loan Mortgage Corporation	(1)	2,560,142	2,560,142
Federal Home Loan Bank	(1)	2,997,630	2,997,630
<u>Deposits</u>			
Demand Deposits	(1)	10,177	10,177
<u>Mutual Funds and Pooled Investments</u>			
TEXPOOL	N/A	316,000	316,000
U.S. Treasury Class II	N/A	4,163,215	4,163,215
		<u>\$13,194,957</u>	<u>\$13,142,715</u>

The preceding risk description categories as outlined in Governmental Accounting Standards Board Statement 3 are defined as follows:

<sup>(1)</sup> Investments that are insured, registered, or for which the securities are held by the Authority or its agent in the Authority's name. Deposits of \$10,177, with a bank balance of the same amount, are entirely insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

The investments included in TEXPOOL earn interest at a rate of 5.33% at September 30, 1999. The investments in U.S. Treasury Class II, a mutual fund managed by Fidelity Management and Research Company, earn interest at a rate of 4.74% at September 30, 1999. Such investments are not categorized by the Authority as they are not evidenced by securities that exist in physical or book entry form, but rather the Authority owns an undivided beneficial interest in the assets of the related investment pool and mutual fund.

## **NOTE 7 - CAPITAL LEASE**

Pursuant to applicable accounting standards, the lease of the Facility to the Rangers (as described in NOTE 3) has been accounted for as a capital lease. Accordingly, the accumulated costs of the Facility have been removed from the Authority's financial statements and a lease receivable has been established representing the future expected lease proceeds. As of September 30, 1999, the lease receivable balance was \$52,847,222, with a corresponding deferred revenue balance.

## **NOTE 8 - CONDEMNATION SETTLEMENT**

As part of the Project, the Authority initiated condemnation proceedings in 1992 to acquire a parcel of land. A condemnation award of \$1,099,350 for the parcel was granted equal to land appraisals made for the Authority. The defendant property owner filed a civil suit contesting the amount of the award. On October 14, 1998, the Authority and the property owner entered into a settlement agreement in which the Authority agreed to pay the property owner \$4,047,127. In consideration, the property owner will release the Authority from any and all claims and causes of action regarding this condemnation.

To pay the settlement agreement, with the consent of the holders of the Notes and the Rangers, the Authority withdrew \$4,779,949 on October 15, 1998, an amount equal to the agreed judgment and certain litigation expenses from the Debt Service Fund. Payment in full to the property owners and the Authority's attorneys was made on this date.

## **NOTE 9 – DISPUTE SETTLEMENT AGREEMENT**

On April 27, 1999, the Authority and the City entered into a Dispute Settlement Agreement and Agreement Not To Pursue Claim (the "Dispute Settlement Agreement") with the Rangers. The Dispute Settlement Agreement relates to the amount of costs of acquiring certain tracts of land for the Project, which the Authority and the City alleged should be paid by the Rangers (the "Claim"). The Dispute Settlement Agreement requires the Rangers to make annual installment payments, without interest, to the Authority on or before December 31 of each year as follows:

<u>Year</u>	<u>Amount</u>
1999 to 2003	\$ 500,000
2004 to 2009	\$ 800,000
2010	\$ 900,000
2011 to 2024	\$1,000,000

The payment in 2024 is due on or before March 1. The Rangers also agreed not to exercise the option to purchase the Facility prior to March 2, 2024. In return, the Authority and the City agreed to release and discharge the Rangers from the Claim. The Authority recognizes \$11,250,153, the present value of the Dispute Settlement Agreement, as settlement agreement receivable, with a corresponding deferred revenue balance.

## **NOTE 10 - PROJECT STATUS**



As of September 30, 1999, the Project was complete. The 49,178 seat open-air major league ballpark opened April 11, 1994, when the Texas Rangers played their first home game of the 1994 season.

#### **NOTE 11 – RECENTLY ISSUED GASB STATEMENTS**

GASB has issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments Introduction* to establish specific standards for the basic financial statements, management's discussion and analysis (MD&A), and certain required supplementary information other than MD&A. This statement will become effective for the Authority in fiscal year 2003. Management has not determined the impact of this statement on the financial statements.

**ARLINGTON SPORTS FACILITIES DEVELOPMENT AUTHORITY, INC.**

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**YEAR 2000 INFORMATION**

**SEPTEMBER 30, 1999**

The City provides the Authority with all of its computing requirements, both mainframe and personal computers. Accordingly, the City has provided to the Authority the following statement:

The year 2000 ("Y2K") problem is caused by the use of only two digits to represent the year in some computer software. For example, the year 1999 is represented by the digits "99". The computer assumes that the first two digits of the year are "19". Thus, on January 1, 2000, computers may read the date as January 1, 1900.

All but one of the City of Arlington's mainframe based application systems was developed in-house. All year 2000 modifications to these are being made in-house and they are expected to be compliant prior to year end. The only vendor supported application package the City has is the Local Government Financial System (LGFS), developed by American Management Systems. The vendor, as related to year 2000, has certified the new release of LGFS, which was installed in November 1998, as being compliant.

The remainder of the City's financially based systems have been certified by City management as being compliant. The majority of the revenues received by the Authority are from outside sources. Because of the unprecedented nature of the year 2000 issue, the effects and the success of the related remediation efforts will not be fully determinable until year 2000 and thereafter.